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Generalized System of Preferences — June 1989

Background: The generalized system of preferences (GSP) is a program that eliminates duties on a range of products imported into the US from designated developing countries (LDCs). Its purpose is to assist LDC economic development by promoting trade rather than aid. By eliminating US import duties on about 4,100 product categories, the GSP is designed to make LDC products more competitive in our market. In 1988 $18.4 billion worth of imports from LDCs entered the US duty free under the GSP. This represents roughly 4% of total US imports.

Discussions about a system of tariff preferences for LDCs began in 1964 at the first UN Conference on Trade and Development (UNCTAD). By 1970 agreement had been reached, and authority for preferences under the General Agreement on Tariffs and Trade (GATT) was obtained in 1971. In 1976 the US became the 19th developed market-economy country to implement a GSP program. The first US program ran from January 1976 to January 1985. In 1984 Congress extended the program until July 4, 1993. The other major preference givers--the European Community and Japan--also have renewed their programs into a second decade.

Importance to US: The GSP is important in US relations with the LDCs. By increasing their export opportunities, the program helps stimulate their industrialization, employment, and economic growth. This also benefits the US, because the additional foreign exchange earnings allow the LDCs to buy more US exports and to repay international debts. Politically, GSP symbolizes the US commitment to LDC economic development and is a measure of how the US shares with other developed countries the costs of promoting development.

Eligibility: President Bush has designated 104 countries and 26 dependent territories as eligible. Among the countries that cannot be designated as beneficiaries are:

- Communist countries that do not receive most-favored-nation tariff treatment and are not members of the International Monetary Fund and GATT;

- Members of the Organization of Petroleum Exporting Countries (OPEC) or other countries raising the price of vital commodities to unreasonable levels or withholding such commodities from trade (under an exemption no longer available, Indonesia, Venezuela, and Ecuador were designated as beneficiaries in 1980);

- Countries that have nationalized property of US citizens without compensation, negotiation, or arbitration;

- Countries that don't act to prevent illegal drugs from entering the US from their countries;

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- Countries that aid, abet, or grant sanctuary to international terrorists; and

- Any country failing to take steps to afford internationally recognized worker rights to its labor force.

Based on this last criterion, Nicaragua and Romania lost GSP designation; Chile, Paraguay, Burma, and the Central African Republic were suspended from the program.

Graduation: If a country's per capita gross national product (GNP) exceeds $8,500 in 1985 or subsequent years, its benefits are automatically terminated after a 2-year phaseout. The ceiling is indexed to growth in US GNP. In April 1988, on completion of the phaseout, President Reagan proclaimed the graduation of Bahrain, Bermuda, Nauru, and Brunei Darussalam effective July 1, 1988. In addition, the President has the authority to graduate from the program beneficiaries that have reached such a level of economic development and competitiveness that they no longer need preferences to compete in the US market. In January 1988 the President decided on this basis to graduate Hong Kong, the Republic of Korea, Singapore, and Taiwan, effective January 1, 1989.

Ineligible products: Although some 4,100 tariff categories are eligible, several product groups are legally excluded. These include textiles and apparel, certain footwear, leather goods, and certain electronic, steel, and glass products.

Competitive need limits: The law places two automatic limits on GSP eligibility so that some competitive advantage goes to countries that are relatively new and small suppliers of a product. If, during the preceding year, any beneficiary has supplied more than 50% of the total US imports of a product or more than a certain dollar figure ($82 million in 1988), the President must withdraw its eligibility.

In addition, as required under the 1984 legislation renewing the GSP program, in January 1987 the President completed a 2-year general review. More than $3 billion of GSP imports--based on 1985 trade figures--were found sufficiently competitive and thus subject to lower competitive need limits of 25% of total imports or more than a certain dollar figure ($32 million in 1988). The President can waive these limits, and the law exempts least developed countries from them.

Annual review: Each year beginning June 1, the annual review presents an opportunity to request modifications in the program's product and country eligibility. Interested parties, including beneficiaries, can request that products be removed or added to the list of eligible items. They can request review of the beneficiary status of any designated country on the basis of the statute's trade, investment, and worker rights criteria. The process provides ample opportunity for beneficiaries and US domestic industry to request modifications in the program.

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